

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Inheritance Tax, Trusts & Estates

November 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Except as set out below or indicated by additional information in the question, you may assume that 2020/21 legislation (including rates and allowances) continues to apply for 2021/22 and future years.

1) You **MUST** assume that the UK remains within the European Union.

2) You **MUST** ignore all temporary Covid related legislation including furlough, grants, loans and the reductions in VAT and SDLT rates.

Except in relation to points 1) and 2) above, candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior in a firm of Chartered Tax Advisers. Your Tax Partner, Lucy Evans, has received an email (**EXHIBIT A**) from a longstanding client, Mrs Emily Taylor.

Emily has received advice previously regarding lifetime Inheritance Tax planning, but no action has yet been taken.

Lucy has asked you to review the email alongside the updated asset listings (**EXHIBIT B**) and the copy of Emily's Will (**EXHIBIT C**) before preparing a draft report to Emily addressing her queries.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Emily Taylor to Lucy Evans

EXHIBIT B: Valuation of Emily Taylor's assets

EXHIBIT C: A copy of Emily Taylor's Last Will and Testament

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to Emily Taylor, for review by Lucy Evans, which advises on the tax implications of her plans and any tax efficient steps that she may be able to take.

Continued

EXHIBIT A

Email from Emily Taylor to Lucy Evans

From: Emily Taylor <'emilytaylor@email.co.uk'.
To: Lucy Evans <'lucy.evans@taxadvisers.co.uk'>
Date: 1 November 2021 06:37am
Subject: My Health and Inheritance Tax

Dear Lucy

I regret that I must share with you that I have received further news regarding my health. My illness has returned. The doctors do not believe they can do anything other than improve my quality of life over the coming months. They are almost certain that I only have between 12 and 18 months to live. My mental capacity will remain, but I will grow physically weaker as the months progress.

I write to let you know and also because I would like some advice. You will remember we reviewed my Inheritance Tax position a few years ago and it was recommended to me that I gift my holiday home (49 Beach View) to my two daughters equally, to begin to mitigate my tax exposure.

I never did get around to carrying out this transfer, nor any other lifetime gifting. Given the current circumstances I am planning to gift 49 Beach View to my two daughters, Charlotte and Susan, in equal shares as soon as possible. I have spoken with them about this and they will sell the property in the next year or so as they do not want to retain it.

In addition to 49 Beach View, I also want to give both of my daughters £250,000 each in cash as soon as possible. You will remember that my husband left our children £255,000 between them on his death via his Will. He then left the residue of his estate to me. It gave me great comfort at the time to watch them enjoying the money then and I want to do this now so that I can see them enjoy the money once more.

Once again, I have already spoken with Charlotte and Susan about this. Charlotte is very happy to accept and has given me her bank details. Susan is very upset about everything and has said that she does not want to receive anything. I do not really want to delay Charlotte's gift and I will speak to Susan in the New Year. I am sure she will accept the gift in January after everything has been absorbed a little.

I also want to give £50,000 in cash to our local hospice, which is a UK registered charity, but I am unsure of whether to do this now or allow the gift to pass via my Will. I would prefer to give it to them now, but I will wait if you advise me to.

I will arrange for an updated copy of my asset listings to be sent over by my Financial Adviser and I will also send you a copy of my most recent Will. Can you please review these documents and advise of any problems you can foresee or opportunities you can identify to mitigate Inheritance Tax. I do of course appreciate that my options are very limited at this stage.

As always, equality is paramount to me. I insist that my two daughters inherit everything equally between the two of them. I do not want either of my grandchildren to inherit directly from me as they are both a little immature at present. I would prefer it if Charlotte and Susan make provision for them and they will take advice on this at another time.

I look forward to hearing from you soon.

Warmest regards
Emily

Continued

Continuation

EXHIBIT B

Valuation of Emily Taylor's assets

Assets held (updated 1 November 2021)

Land and Property

<u>Address</u>	<u>Detail</u>	<u>Date of Purchase</u>	<u>Cost</u>	<u>Market Value</u>
			£	£
Rosewood Cottage Nottingham NG14	Main Residence	14/09/2015	400,000	500,000
49 Beach View Cornwall TR7	Holiday home. Let out to the public. Qualifies as a Furnished Holiday Let. The only services available to guests are a laundry service and food basket upon arrival, both services are optional.	09/03/2004	180,000	600,000
Subtotal – Land and Property			<u>580,000</u>	<u>1,100,000</u>

Bank account balances

	£
UK Current account	45,000
UK Savings account	820,000
Subtotal – Bank account balances	<u>865,000</u>

Investments

<u>Investment</u>	<u>Detail</u>	<u>Date of investment</u>	<u>Cost</u>	<u>Market Value</u>
			£	£
Stock and Shares main account	All listed shares (no control)	17/01/1995	250,000	610,000
Stocks and Shares ISA account	All listed shares (no control)	12/01/2016	50,000	75,000
National Savings	Premium Bonds	12/12/2019	50,000	50,000
Subtotal – Investments			<u>350,000</u>	<u>735,000</u>
Total assets				<u>£2,700,000</u>

Continued

EXHIBIT C

A copy of Emily Taylor's Last Will and Testament

THIS WILL is made the 15th day of June Two Thousand and Seventeen by me EMILY TAYLOR of Rosewood Cottage, Nottingham, NG14 5AB.

WHEREBY:

- 1) I REVOKE all Wills and testamentary dispositions heretofore made by me.
- 2) I APPOINT my daughters CHARLOTTE BROWN of 48 Smith Street, Nottingham, NG14 1DE and SUSAN TAYLOR of Woodburn Cottage, Nottingham, NG13 6AB (hereinafter called "my Trustees") to be the executors and trustees of this my Will.
- 3) I GIVE, DEVISE AND BEQUEATH all my property what so ever and where so ever situate unto my Trustees upon trust to sell the same (with power to postpone the sale thereof) and to hold the net proceeds of sale and the net rents and profits until sale and my ready monies Upon Trust to pay thereout my just debts funeral and testamentary expenses and all Inheritance Tax or other fiscal imposition arising on property passing under this my Will and to hold the net residue (hereinafter called "the Trust Fund") upon the trusts hereinafter declared.
- 4) MY TRUSTEES shall hold the Trust Fund upon Trust to divide the same equally between such of the following as shall survive me and if more than one equally: -
 - (a) my daughter the said CHARLOTTE BROWN
 - (b) my daughter the said SUSAN TAYLOR
- 5) THE STANDARD PROVISIONS of the Society of Trust and Estate Practitioners (2nd Edition) shall apply.

As witness my hand this 15th day of June in the year Two Thousand and Seventeen.

Signed by the Testator EMILY TAYLOR

in our presence and attested by us in the presence of the Testator and of each other

E Taylor
Signature of Testator

First Witness

R Jones

Signature: R Jones

Second Witness

J Mason

Signature: J Mason

Full Name: Mr Robert Jones
Address: c/o 7 New Street
Nottingham
NG9 1XA

Occupation: Solicitor

Full Name: Mr Jacob Mason
Address: c/o 7 New Street
Nottingham
NG9 1XA

Occupation: Associate Solicitor

Continued

EXHIBIT D

Pre-seen information

Client

Mrs Emily Taylor.

(Higher Rate Taxpayer, Income Tax liability around £15,000 each year.)

Mrs Taylor has signed the firm's new GDPR compliant engagement letter covering compliance and advisory services on 25 February 2020.

Born

13 September 1951

National Insurance Number

JB483200B

Domicile

England & Wales

Residence

Rosewood Cottage
Nottingham
NG14

Purchased in 2015, following the sale of Woodland Lodge.

Spouse

Mr Harry Taylor (Deceased)

Descendants

Daughters:

Mrs Charlotte Brown (Divorced)
Born 12/09/1972 (Higher Rate Taxpayer)

Miss Susan Taylor (not married)
Born 13/07/1975 (Higher Rate Taxpayer)

Grandchildren:

(All descendants of Mrs Charlotte Brown)

Mr George Brown born 14/10/1998
Miss Heather Brown born 03/03/2001

Continued

Continuation

Gifting history

Total amount equal to the annual exemption gifted to grandchildren at the beginning of each tax year.

Assets

Land and property	Value – £1.1million
Listed investments	Value – circa. £750,000
Cash at various institutions	Value – circa. £750,000

Information relating to Mr Harry Taylor (Deceased)

Born

12 June 1940

Date of death

14 August 2003

National Insurance Number

JT764523A

Domicile

England & Wales

Last residence

Woodland Lodge
Nottingham
NG13

IHT Reference

L675213/04F

Descendants

Daughters:

Mrs Charlotte Brown born 12/09/1972

Miss Susan Taylor born 13/07/1975

Grandchildren:

(All descendants of Mrs Charlotte Brown)

Mr George Brown born 14/10/1998

Miss Heather Brown born 03/03/2001

Continued

Continuation

Gifting History

18/09/2002 – £50,000 in cash to The National Cancer Association (A UK registered charity)

Assets at death

Listed share portfolio	Value – £500,000
Main residence	Value – £350,000
Cash at various institutions	Value – £600,000